



Final report to the Audit Committee on the 2016/17 audit

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Director introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

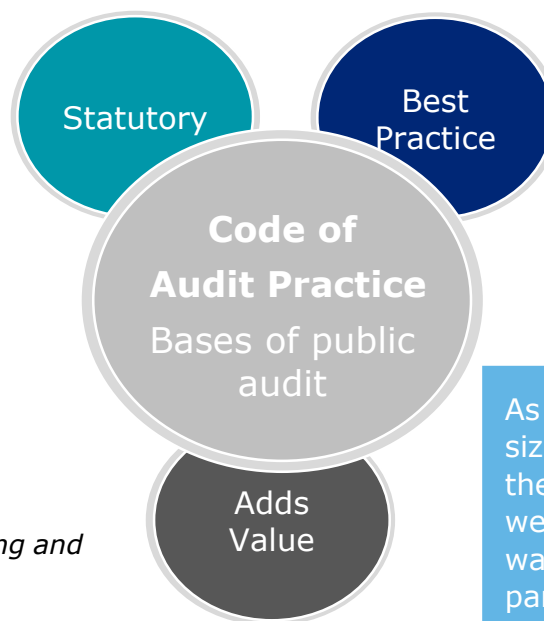
- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report for the 2017 audit.

As detailed in our plan presented in February 2017, the new Code of Audit Practice, which came into force for the 2016/17 audits, sets out our responsibilities under core audit and wider scope requirements. A reminder of the requirements is set out below.

- *Opinion on the financial statements and regularity*
- *National performance audits and Best Value audits*

- *Public reporting and audit findings*
- *Wider scope reporting*



- *Opinion on performance report, remuneration reports and governance statements*

As set out in our plan, due to the relative size and scale of the functions delivered by the Scottish Legal Complaints Commission, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the governance statement; and
- The financial sustainability of the Commission and the services that it delivers over the medium to longer term.

Director introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Statutory audit

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
 - Income recognition; and
 - Management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 9.
- No unadjusted errors have been raised by Deloitte as a result of testing performed.
- We issued an unmodified audit opinion.

Status of the audit

- The audit is complete.

Director introduction (continued)

The key messages in this report (continued)

Best Practice

Overall conclusion

- We have reviewed the annual report with reference to the format and content set out in the Government Financial Reporting Manual (FRoM), confirming that the Annual Report and Accounts comprise a Performance Report, an Accountability Report (which includes the Remuneration and Staff report and the Governance Statement) and the Financial Statements.
- As a new requirement in 2016/17, we are required to provide an opinion on whether:
 - the Performance Report has been prepared in accordance with the accounts direction
 - the information given in the Governance Statement is consistent with the Financial Statements; and
 - the Governance Statement has been prepared in accordance with the accounts direction.
- We issued an unmodified opinion on the above.
- In addition to the opinion, we will read the Performance Report and Accountability Report (including the Governance Statement) and confirm that the information contained within both is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.
- Our work on the auditable parts of the Remuneration and staff report is complete.

Director introduction (continued)

The key messages in this report (continued)

Adds Value

Governance Statement

The FReM requires a Governance Statement to be published with the financial statements and guidance on content is provided in the Governance Statement section of the Scottish Public Finance Manual (SPFM) which sets out the essential features. Our work is ongoing to confirm that the Commission's Governance Statement is in compliance with this guidance and is consistent with our knowledge gained during the audit.

We are not aware of any significant events between 30 June 2017 and the date of authorisation which have not been included in the Governance Statement.

Financial Sustainability

Final outturn for the year was £2,963k which resulted in a deficit of £207k against the £2,755k in income generated in the year.

Unlike other commissions, SLCC has greater control over its own income as it does not rely on grant-in-aid from the Scottish Government. The deficit incurred in the year was planned by management in order to reduce oversized reserves carried forward. An additional deficit of £98,555 is currently planned for 2017/18 in order to bring reserves to the desired level, after which spending and levy income levels will be adjusted in order to achieve financial balance going forward.

Evidence suggests that the budgeting and forecasting processes in place identify potential short and medium term risks and the exposure to those risks that the Commission faces. The greatest risks faced with regards to levy income are addressed through ongoing cooperation with levy paying bodies and with the Scottish Government. Risks are considered as part of the reserves held going forward.

The focus of the budgeting process in place is very much focused on the short to medium term. This is common amongst commissions due to the degree of inherent uncertainty in long term funding – despite SLCC generating income from different sources than most other commissions, political pressures placed on levies by paying bodies and the uncertainty in SLCC's workload and overarching role in the long term makes budgeting beyond the medium term very challenging. This is in line with our experience elsewhere.

Pat Kenny
Audit Director

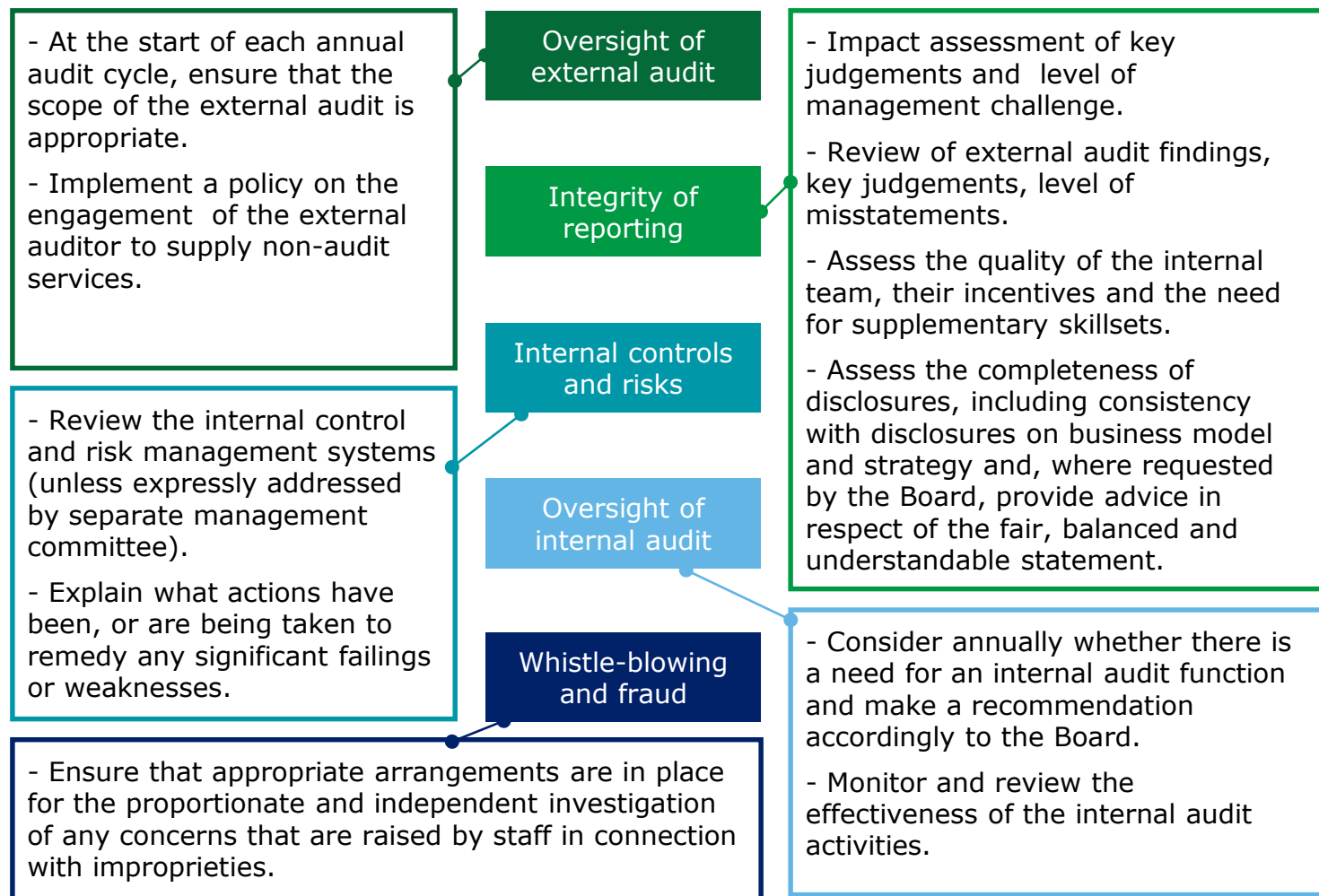
Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

The primary purpose of the Auditor's interaction with the Audit Committee:

- Clearly communicate the scope of the financial statements audit
- Provide observations arising from the audit that are significant and relevant to the Audit Committee's responsibility to oversee the financial reporting process
- In addition, we seek to provide the Audit Committee with additional information to help them fulfil their broader responsibilities.

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.



Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the two audit dimensions, being:

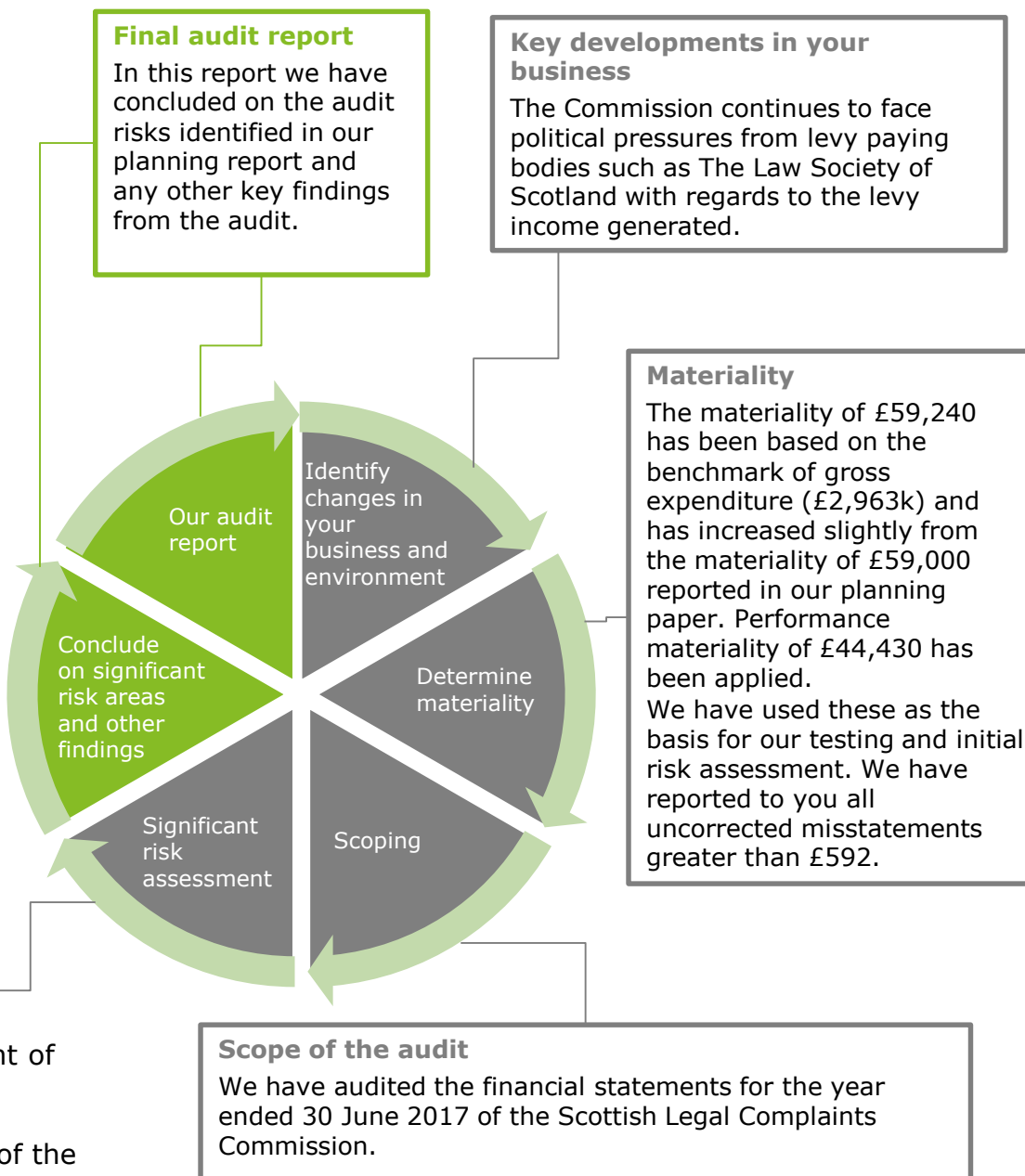
- Financial sustainability
- Governance and transparency

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 9 provides a summary of our risk assessment of your significant risks.

Quality and Independence







We confirm we are independent of the Scottish Legal Complaints Commission. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.



Timeline 2017



Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Income recognition			D+I	Satisfactory		Complete	10
Management override of controls			D+I	Satisfactory		Complete	11



Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Income recognition

Risk identified

ISA240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The components of other income for the SLCC are income from levies and bank interest income. The significant risk is pinpointed to the recognition of levy income, being completeness and accuracy of income from levies from the Law Society of Scotland and Faculty of Advocates.



Key judgements and our challenge of them

Our focus has been on the completeness, accuracy and cut-off of levy income generated in the year. We have also assessed the key controls around the recognition of levy income.

(The other element of income referred to in our planning paper was bank interest – given this balance in the year was immaterial we have not tested this to a significant risk level).



Deloitte response

We have performed the following procedures:

- Obtained an understanding of the design and implementation of the key controls in place;
- Sampled cash receipts to the income ledger to assess for completeness of income recorded;
- Sampled from the income ledger to assess accuracy of income recorded;
- Focused cut-off testing at year end by sampling from cash receipts and the income ledger.

Deloitte view

We have concluded through our testing that the accuracy, completeness and cut-off of levy income recorded in the year is in line with financial reporting requirements and is satisfactory.

Significant risks (continued)

Management override of controls

Risk identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.



Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- the Commission's results throughout the year were projecting overspend however this was planned by management in order to deplete oversized reserves.
- senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. We have used data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis covered every journal posted in the year. No issues noted from our testing.

Accounting estimates

Our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements is complete and we did not identify any issues of management bias.

Significant transactions

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

Deloitte view

- We have not identified any significant bias in the key judgements made by management.
- The control environment is appropriate for the size and complexity of the body.

Your annual report

We welcome this opportunity to set out for the Audit Committee our observations on the annual report. We are required to provide an opinion on the Remuneration Report and Staff Report, the Annual Governance Statement and whether the performance report is consistent with the disclosures in the accounts.

	Management response	Deloitte response
The Performance Report	The report outlines the Commission's performance, both financial and non-financial. It outlines its vision, supported by a set of strategic themes, to deliver its strategy. It also sets out the key risks and uncertainty.	We fed back a number of comments to management in this area which were corrected in the final version of the Annual Report.
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the Governance Statement and Remuneration and Staff Report.	We fed back a number of comments to management in this area which were corrected in the final version of the Annual Report.
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	We have confirmed that £3,068k of levy income has been generated for 2017/18 and that there is a planned deficit of £98,555 in order to reduce reserves to their desired level going forward. Based on all procedures performed, we agree with management's assessment that it is appropriate for the Commission to prepare the financial statements on a going concern basis.

Financial sustainability

Wider scope requirements

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Areas considered

- The financial planning systems in place across the shorter and longer terms
- The arrangements to address any identified funding gaps
- The affordability and effectiveness of funding and investment decisions made

Deloitte response

We have monitored the body's actions in respect of its short, medium and longer term financial plans to assess whether financial balance can be achieved.

Given the additional control the Commission has over its own income relative to other commissions, the financial balance in the short to medium term is well managed. Deficits and surpluses are closely managed and planned to achieve optimal reserve levels, and risks are identified and assessed accordingly. Actual vs budgeted performance is assessed by the board throughout the year, and medium term forecasting is also in place.

Long-term financial plans in not an area of focus due to inherent uncertainty in long-term future funding available and the overarching role the SLCC will fulfil. It is common amongst other similar sized central government bodies to focus on short and medium term funding due to similar uncertainties.

Short-term

£3,068k in levy income has been generated for 2017/18, and a deficit of £98,555 has been planned. Levy paying bodies are constantly putting pressure on the levies charged by the Commission and costs uncertainties arises due to the reactive nature of much of the work performed by SLCC in relation to complaints received. These factors are considered as part of the budgeting process in place.

Medium-term

A 2016-20 strategy is in place and annual projections until 2019/20 have been forecasted. Given the uncertainties around future movements in levies charged and costs incurred as a result of changing workloads year-on-year these projections are performed at a much higher level than short term projections.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

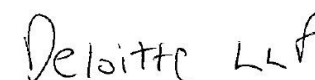
Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

This report has been prepared for the Audit Committee and the Commission, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.



Deloitte LLP

Glasgow

Appendices



Audit adjustments & Pension findings (1/2)

Corrected misstatements

Provision for bad debts incurred during the year was previously netted against income within the Statement of Comprehensive Income and Expenditure. It has since been reversed out and reflected as a separate expense through the following journal entry:

DR Operating Expenditure £7,542

CR Complaints Levies Income £7,542

The same adjustment had to be made for prior year figures as follows:

DR Operating Expenditure £10,000

CR Complaints Levies Income £10,000

Legal provisions were previously included within trade and other payables within the Statement of Financial Position. They have since been reversed out and reflected as a separate provision through the following journal entry:

DR Trade and other payables £83,682

CR Provisions £83,682

The same adjustment had to be made for prior year figures as follows:

DR Trade and other payables £115,000

CR Provisions £115,000

The holiday pay accrual for staff who started during the year was calculated incorrectly in the system, resulting in an over accrual. This has led to the following adjustment which has been made in the final version of the accounts:

DR Provisions £2,410

CR Payroll expense £2,410

Audit adjustments & Pension findings (2/2)

Uncorrected misstatements

- No uncorrected misstatements have been identified from our audit work performed.

Disclosure misstatements

- Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work.
- A minor disclosure deficiency was noted in relation to presentation of finance costs within operating costs. However as the value of these is immaterial we did not ask management to correct this.




Pension Findings

Our internal actuarial specialists have carried out a review of the IAS19 assumptions and accounting in respect of the Lothian Pension Fund figures. Overall, based on our experience and market conditions at 30 June 2017 the set of assumptions is prudent when compared to Deloitte benchmarks.

No deduction has been made in the RPI assumption for "Inflation Risk Premium" – typical practice is to apply a deduction of 0.2-0.3% p.a. Inflation and related assumptions are therefore prudent – a deduction of 0.25% p.a. would lower the defined benefit obligation by c. £60k.

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Incorrect classification of PP&E	<p>There are a number of items within the IT & Telecoms Equipment category which should be classified as intangible assets. The items are held at a nil book value, therefore the overall tangible and intangible assets NBV's remain unchanged. However, it does mean that the cost and accumulated depreciation figures shown for each category of asset are incorrect as these assets have been incorrectly classified.</p> <p>We recommend that these assets should be reclassified to the correct asset type/grouping.</p>	Reclassification adjustments will be processed by the target date.	Finance team	30 June 2018	
Overstated intangibles balance	<p>A number of items shown with a 'cost' and 'accumulated depreciation' balance are no longer in use. Whilst the overall impact on the NBV is nil, the note to the accounts are overstated.</p> <p>The FAR should be reviewed to identify any assets that are no longer held, and those items removed from both the cost and accumulated depreciation accounts.</p>	Reclassification adjustments will be processed by the target date.	Finance team	30 June 2018	
Tangible assets cannot be physically verified	<p>From our testing, we note that a number of tangible assets recorded on the fixed asset register are no longer in use and cannot be physically verified. Whilst these are held at a nil NBV (and therefore the overall impact on the accounts is nil), it does mean that the note to the accounts shows both the cost and accumulated depreciation balances as overstated.</p> <p>The FAR should be updated to reflect on those assets which are still in use.</p>	<p>Assets no longer held have been identified and adjustments will be made by the target date</p> <p>The Fixed Asset Register will be updated as required by the target date.</p>	Finance team	30 June 2018	

Key:



High Priority



Medium Priority



Low Priority

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the CEO to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

We have also asked the CEO to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the risk of fraud in income recognition and management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

Concerns:

We have identified no causes for concern from the work noted above and from our audit procedures performed.



Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland) we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	<p>The audit fee for 2016/17 is £11,990 as detailed in our Audit Plan.</p> <p>No non-audit services have been performed by Deloitte in the period.</p>
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>





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